

An organization is composed of individuals, firms, associations, and corporations, each representing a different trade, business, occupation, or profession. It was created for the purpose of exchanging information on business prospects and has no common business interest other than a desire to increase sales of members. Held, such an organization is not entitled to exemption from Federal income tax as a business league under section 501(c)(6) of the Internal Revenue Code of 1954.

G.C.M. 21000, C.B. 1939-1 (Part 1), 124, revoked.

Advice has been requested whether an organization which restricts its membership to individuals, firms, associations, and corporations, each of which represents a different trade, business, occupation, or profession and no one of which is in competition with another, is entitled to exemption from Federal income tax as a business league under section 501(c)(6) of the Internal Revenue Code of 1954.

The instant association was organized for the mutual exchange of business information among its members; to facilitate the making of business contacts for its members; to encourage all types of trade expansion for the benefit of its members; and to encourage better business relations among its members. The bylaws of the association provide that the membership shall be composed of persons, firms, associations, and corporations, each representing a different trade, business, occupation or profession. With respect to the main activities of a member, no member shall be in competition with another member. An applicant shall not be denied membership in the association solely because the applicant's main activity is in conflict with the incidental activities of a member. Where the member is a firm or corporation, it is required to designate one of its executives as its representative in the association.

The association holds weekly luncheon meetings; operates a central information service for the exchange, among members, of business information; encourages member cooperation and business efficiency; and operates an information service relating to sales and sales prospects. Each member submits a list of business acquaintances and agrees to furnish to other members letters of introduction to such acquaintances. Each member agrees to keep the association's members informed of business changes which may indicate potential markets for the sale of members' products.

The association's income is derived from dues and fees and is disbursed for salaries, contact expenses, luncheons and dinners for members, rent, and other office expenses.

Section 501(c) of the Internal Revenue Code of 1954 describes certain organizations exempt from income tax under section 501(a) and reads, in part, as follows:

(6) Business leagues, chambers of commerce, real-estate boards, or boards of trade, not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations provides, in part, as follows:

A business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons. An organization whose purpose is to engage in a regular business of a kind ordinarily carried on for profit, even though the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining, is not a business league. * * *

On the basis of all the evidence presented, it is concluded that the members of the instant organization have no common business interest other than a mutual desire to increase their individual sales. It appears evident that its activities are not directed to the improvement of business conditions of one or more lines of business, but rather to the promotion of the private interests of its members, which membership is limited by the organization's bylaws to one representative from each line of business. Nor can this diversity of interest be explained away by a comparison with the business interests of the members of a local board of trade or a chamber of commerce. Such organizations do not limit their membership in the manner employed in the instant case.

While the regulations do not state that a business league must promote the betterment of general commercial welfare, they do require that the activities of the organization be directed to the improvement of business conditions of one or more lines of business. This latter requirement has not been complied with in the instant case. Moreover, since the organization actively requires that its members give preference to one another in business transactions, for their mutual and exclusive benefit, it is not considered to be the type of an organization for which an exemption from tax was intended.

Accordingly, it is held that the instant association is not a business league within the intendment of section 501(c)(6) of the Code.

In view of the foregoing, G.C.M. 21000, C.B. 1939-1 (Part 1),

124, which dealt with an association similar to the instant organization and which held such association to be exempt as a business league described in section 101(7) of the Revenue Act of 1938, is hereby revoked.

Rulings and determination letters which have been issued to similar organizations holding them to be exempt from income tax as organizations described in section 501(c)(6) of the 1954 Code or comparable provisions of the 1939 Code and/or prior revenue acts, are also revoked. However, such revocations generally will not be applied retroactively to taxable years beginning prior to January 1, 1960. See section 12.05 of Revenue Ruling 54-172, C.B. 1954-1, 394, at 401.